

Which entrepreneurs expect to expand their businesses? Evidence from survey data in Lithuania.

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Abstract

For most countries in Central and Eastern Europe, the transition process has been well underway for over fourteen years. In May 2004, ten of these countries joined the European Union. On the surface, these countries have developed a private sector that in terms of size and economic importance reflects the levels observed in advanced Western economies. However, a closer look shows that the composition of the private sector has been different. Whereas in transition countries most of the private sector emerged due to a shift of resources from state to private hands (through privatisation), in advanced western countries, the private sector emerged through the development of privately-owned enterprises (Pissarides 2004). Regardless of this difference, the development of a healthy small and medium-sized enterprise (SME) sector is of special importance in transition countries not only for their wealth and job generation possibilities, but also for their ability to foster innovation, experimentation and adaptation in the business environment.

In this paper, we focus on the factors affecting enterprise growth in the transition country context. We use a data sample based on a survey of 399 SME owners in Lithuania. Lithuania provides an excellent example of a transition country that has successfully transformed its status from a centrally planned Soviet republic to a fast-growing, sovereign, market-oriented and democratic EU member state. We are specifically interested in the factors affecting two types of growth expectations: intention to increase the number of employees and intention to increase business turnover. Though growth expectations might be viewed as a subjective assessment, a number of authors have indicated that business growth is at least partially determined by the entrepreneur's motivations and intentions for the business (Davidsson, 1991; Kolvereid, 1992; Cooper, 1993; Herron and Robinson, 1993; Cliff, 1998; Wiklund et al., 2003). In addition, by asking entrepreneurs about their expectations about the future, we alleviate the problem of endogeneity, unlike the typical situation where growth indicators are explained by some contemporary characteristics of firms.

Bivariate and ordered probit estimators are used to analyse growth aspirations incorporating a set of explanatory variables including human capital measures, firm level attributes, sectoral affiliation and export behaviour. In addition, we include perceptions of the main external barriers, i.e. taxes and corruption into account as they may have an influence on growth expectations.

Our study provides the following contributions. Firstly, our data is unusually rich in its representation of self-employed entrepreneurs. This allows us to more accurately compare the effect of firm size on growth aspirations for all SME size

categories. Our results indicate that while small and medium firms expect to grow, the smallest firms i.e. micro firms do not; thus there seems to be a stagnant pool of very small enterprises. This finding contradicts a negative link between size and employment growth found in other studies (Faggio and Konings 2003; Bechetti and Trovato 2002). We argue that the discrepancy stems from the fact that while smallest firms are being typically underrepresented in other studies, our dataset includes the micro-firms as well. Secondly, we are able to test the effect of the two most significant business barriers on growth aspirations. Here we find that both the high level of taxes as well as corruption are identified as negatively related to growth aspirations. Thirdly, the characteristics of the owners matter. Those with higher education and 'learning by doing' attributes either through previous job experience or additional entrepreneurial experience are more likely to expand their businesses.

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